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The President's Scratch-Pad



Low Cost Production—and Distribution?

Statistically speaking, marketing prospects for the postwar period are bright. Bank deposits are at an all-time high; huge amounts of purchasing power are salted away in war bonds; and consumers hunger to acquire new refrigerators, cars, nylon stockings, and a thousand other items that have been scarce or unobtainable during the war period.

But while consumers want to buy, they may *not* buy for more than minimum needs if prices are away out of sight. Buyers, as well as producers, have been known to strike.

This danger, however, is one which business is equipped to guard against. Intensive studies already are being made in many companies of how costs can be reduced, and production men are not likely to put up an argument when told to cut their unit costs—to do so is the primary end of all production efficiency.

But with marketing costs, it may be another story. Our costs of selling are high in the United States. We firmly believe that "it pays to advertise." And it does. But there *are* measures and standards of efficiency for advertising. In the past these standards have not always been utilized, and some strange distortions certainly have crept into them during the war years. But it is not advertising alone that forms the cost of distribution; a multitude of items are involved.

It is sometimes argued that high marketing costs make for wider distribution; and hence for lower over-all costs in the long run. While there is some reason behind this thesis in many cases, it is utterly fallacious when used to justify

distribution spending based on guess-work.

It is, in fact, one of the time-honored inequities of management that the pressure for lower costs is never taken off the production department, whereas, by comparison, the sales department has a relatively easy time in this regard. True, many companies have strenuously sought to cut their distribution costs, but in others the selling operation has tended to become a grossly inflated activity whose directors' ideas concerning the value of a dollar have little in common with reality.

Perhaps if the compensation of these executives were to some extent based on their success in lowering distribution costs as well as on their success in actually selling the product, production and marketing would be on a more nearly equal footing and, indeed, both might benefit, on the theory that more people would be able to purchase the lower-priced goods.

Too much of the distribution dollar has been wasted for lack of scientific attention to market potentials, location of warehouses, selection and compensation of salesmen, to name a few important factors. Too often marketing schemes have been adopted merely because some "intuitive genius" had a hunch, or because competitors were pursuing similar plans.

"In many cases," a study* made by The Twentieth Century Fund points out, "a distributor imitates his competitors, not because he is driven to it by compe-

* Does Distribution Cost Too Much? New York, 1939.
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TRENDS IN BUSINESS

GENERAL OUTLOOK

With the announcement of more liberal reconversion policies, postwar prospects are looking better than they have for some time. Further, reports from industry indicate that many key companies have their postwar plans in readiness for quick use.

Victory over Germany, it is now estimated, will bring a cutback of 40 per cent in war production, and the release of some 4,000,000 workers. This may not make for that much unemployment, however, since many jobs are going unfilled at present, and past experience has shown that there is considerable retirement from the labor market, on the part of housewives and others, when war jobs disappear.

The important thing to guard against is the development of a deflation psychology, and general contraction all around.

PRODUCTION

Continuing the trend which has been noted since last March, the Federal Reserve Board's seasonally adjusted index of production dropped from 235 (1935-1939=100) in June to 233 in July. Factory output was 6.7 per cent below the record figure, and 3.5 per cent below the figure for July, 1943.

Steel production in July was at a point 8 per cent below the level achieved last fall, while output of non-ferrous metals was down 20 per cent from the high point. Coal production declined 5 per cent from the June figure.

DISTRIBUTION

While retail sales in the second quarter of 1944 sagged slightly below the wartime records reached in late 1943 and earlier this year, present prospects are that the figure for the full year will be

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Trends in Business

(Continued)

somewhat above \$68,000,000,000. Total retail sales amounted to \$63,818,000,000 in 1943, and to only \$38,053,000,000 in the prewar year of 1938.

AGRICULTURE

Crop production in the aggregate is expected to top last year's figure by 5 per cent, with the wheat harvest 35 per cent better than in 1943. Prospects for corn, hay, and potatoes are not so good as they were earlier in the season, but most fruits and vegetables are expected to better last year's figures.

Abundance in the farming areas, however, is not quite so welcome as it was, for talk of farm surpluses is already beginning to be heard. Although lend-lease supplying of Britain and Russia is expected to continue some time after the defeat of Germany, relief needs of Europe are believed to be below earlier expectations. Further, the Army is said to have such huge stocks on hand that it can cut off purchases of almost all food for Europe the very day of the Nazi surrender.

What is going to happen to farm real estate values is another moot question. By March 1, 1944, these values were up 35.7 per cent from the March 1, 1939, a rise practically equal to the World War I advance of 35.9 per cent. (After the Armistice of 1918 farm real estate values increased to 65 per cent above the 1914 level, and in 1933 were down to 29.1 per cent below prewar figures.)

"It should be noted, however," the Alexander Hamilton Institute points out, "that there is one difference between the situation now and the situation which existed at the time of the last war . . . The current rise started at a lower level. Consequently actual values now not as high as they were then. The index of the value per acre of farm real estate, as compiled by the Department of Agriculture on the basis of 1912-1914=100, was 114 on March 1, 1944, as compared with 140 on March 1, 1919."

SOURCES:

ALEXANDER HAMILTON INSTITUTE
BROOKMIRE, INC.
BUSINESS WEEK
CLEVELAND TRUST COMPANY
DUN'S REVIEW
FEDERAL RESERVE BANK OF
NEW YORK
NATIONAL CITY BANK

LABOR AND WAGES

The Little Steel formula, which so far has shown surprising ability to bend without breaking, seems due to snap at last under long-continued union pressure.

As this is written, the report of the National War Labor Board's tripartite steel panel has not yet been issued, but the views of the public members are expected to reflect the manner in which modification will be carried out, although the report itself will be only a "fact-finding" one.

Business Week thinks modification, if and when it comes, will not be a straight upscaling of the 15 per cent. "The Little Steel formula nominally will remain standing," it predicts, "but Roosevelt will beat a path around it by some such technique as deciding that, to insure a floor under wage purchasing power, reductions in overtime payments must be offset by increases in basic hourly rates."

COST OF LIVING

Although the rise has been extremely gradual, the Bureau of Labor Statistics cost of living index has been advancing steadily in recent months. In July, it stood at 126.1 (1935-39=100), compared to 125.4 in June, 125.1 in May, 124.6 in April, and 123.8 in March and February.

In January, 1941, base month of the NWLB's Little Steel formula, the index registered 100.8, and between then and July, 1943, it rose to 123.9. At that point the advance seemed to be checked completely, since the index merely fluctuated fractionally from month to month, registering a net drop of .1 in the eight-month period. Now, however, the trend appears to be distinctly upward.

MONEY AND CREDIT

It is now estimated that the Federal debt will amount to \$251,286,000,000 by June 30, 1945, an increase of \$41,484,000,000 over the figure for the end of August of this year.

Receipts in August were \$2,568,000,000, compared to \$2,721,000,000 in the corresponding month last year, while expenditures were \$8,119,000,000, as against \$7,617,000,000 in August, 1943. Government estimates, however, place revenues for the full year above those for last year.

WHAT MANAGERS ARE SAYING

VETERANS

I have just finished reading the article entitled "The Returning Veteran" in the July issue of the *Management News*. The industrial relations manager and I have discussed it, and we are in agreement with your presentation of the problem. We both feel that the whole matter is one of good human relations.

For some years I did institutional work with people suffering from mental and nervous disorders. From this experience I must express myself rather strongly against the current tendency to regard the handling of the returning veteran as a mass problem. Even inmates of mental institutions deeply resent mass treatment and object to being considered other than as individuals.—*Assistant Personnel Manager, Hardware Manufacturer.*

* * *

There are so many agencies rushing in to aid the war veteran and so many companies getting on the band wagon with announcement of plans—sometimes rather hastily conceived—that together with some rather extreme interpretations of the Selective Service Law, it is beginning to make the one who stayed on the job and turned out the war material feel that he is going to have no rights whatever to anything a returned veteran may want.

In connection with one particular case, a representative of the Veterans Administration made the flat statement that we were required by law to take back a discharged service man even though it meant laying off another employee with longer service. This interpretation of the law could be carried to ridiculous extremes and is badly in need of clarification.

We want to do everything we can for the returned service man, bearing in mind that while he was out fighting those who remained made a great deal of money. At the same time, we must try to keep our feet on the ground.—*Manager, Employee Relations, Equipment Company.*

OFFICE BENCHES

My hunch is that the postwar years will see some remarkable changes in offices. Instead of rows of desks of the same height, length, and width, "office benches" which fit the particular job will be used. The appearance of the office will not be so attractive, but I can point out that the appearance of the machine shop could be considerably improved if all the special machines were thrown out and two rows of milling machines substituted.—*General Office Manager, Manufacturing Company.*

JOB EVALUATION

We are now evaluating office jobs, and with any luck the program should be completed by late fall. In addition, we have in process a study of the number of office employees required at various sales levels. The next step will be to match the facts revealed by both programs in an attempt to envision the most efficient organization at each sales level.—*Auditor, Insulating Company.*

ANNUAL WAGE

The American worker is heavily security-minded, and we can't blame him for this. The demand for the annual wage is going to be almost irresistible.—*Economist.*

RESEARCH DEPARTMENT

Interviewing and Job Analysis

It is regrettable from the management point of view that the technicians who believe the interview has undeveloped potentialities for personnel selection have neglected research in what would seem to be one of the most promising channels for development of the interviewing technique: namely, the relationship between job analysis and the interview.

The desirability of establishing a relationship between the two has been commented upon frequently, but there is no evidence that any comprehensive studies have been attempted. This is particularly true in the province of non-industrial personnel—salesmen, for instance—where the use of psychological tests and other devices has been least effective.

CRITICISMS OF THE INTERVIEW

It is even becoming rather fashionable to assail the interview as a hopelessly antiquated device. We are told of the numerous fallacies that confound even the sincerest interviewer—the unconscious associations between the applicant's physical appearance and the interviewer's erroneous preconceptions, the distortion in judgment resulting from the interviewer's prejudices, the influence of the interviewer's own peculiar convictions and social viewpoints. The principal defect of interviewing, we are told—and it is implied that it is an irremediable one—is exemplified in the rhyme:

I do not like thee, Doctor Fell,
The reason why, I cannot tell,
But this I know, and know full well,
I do not like thee, Doctor Fell.

Most damning of all, critics cite the experiments conducted by Hollingworth and others, which demonstrate the enormous range of judgments passed on a single applicant by different sales managers. The Hollingworth study has been highly influential in giving currency to the argument that the interview is wholly unreliable; but a more sensible and temperate conclusion would be that it demonstrated the unreliability of the interviewers. We cannot damn the tool because it is used badly.

SOME RESEARCH PROJECTS

That it is used badly is undeniable, but there is sound basis for the conviction that intensive and intelligent research can tremendously increase its effectiveness in personnel selection, par-

ticularly in the case of non-industrial employees, such as salesmen. Of the research projects that have been undertaken, a large number—particularly those which apparently seek a method of translating psychological tests into terms of the interview—seem to have only limited promise. On the other hand, the studies in the psychology of the interview by R. C. Oldfield, while still too preliminary and general to provide the basis for major improvements in practice, appear to offer possibilities on a long-range basis. Perhaps the most promising of all was the research study initiated by the Industrial Relations Association of Philadelphia, but unfortunately ended by the war. The resumption of this experiment is to be looked forward to eagerly.

None of these studies, however, seems to have done much more than pay lip service to what ought to be one of the most productive fields of experimentation—the establishment of significant relationships between job analysis and the content of the employment interview. An inhibiting factor, undoubtedly, has been the absence of job analysis itself in many non-industrial occupations above the clerical level. Thus in the field of sales personnel, where, as Shartle has pointed out, selection problems present greater difficulties than in any other occupation, sound job analysis is rare to the point of virtual non-existence.

It would seem self-evident that before an individual can be intelligently selected for a specific job, the requirements and duties of that job must be known. The objective of the employment interview is not simply to determine the background, personality, and motivations of a given person, but to appraise those factors in terms of his potential performance in a specific job. We cannot define the factors until we know what the job is; and we cannot know what the job is until we have thoroughly analyzed it into its component functions.

POSSIBILITIES OF JOB ANALYSIS

At least in the province of sales personnel, the implications of these truisms are almost wholly ignored. Here the interview, like the psychological test, is used for the determination of a vague and almost meaningless quantity known as "sales ability." "Sales ability" means

different things in different jobs, and we cannot know its meaning in any specific job until we know, in full detail, the requirements of that job.

We need intensive exploration to establish, in as precise form as possible, the qualities essential to the performance of each function or operation, however minute, revealed by analysis of the job. Once we have assembled such a list for a specific job, we have at least the basis for development of a sound, orderly interview procedure.

The interview has by no means been outmoded as a selection tool. Its potentialities are very great indeed, but sound and intensive research is necessary if they are to be realized.

Information Wanted On Suggestion Plans Adapted to Salesmen

The AMA Research and Information Department is interested in learning whether any suggestion systems for salesmen have been developed. It would like to hear both from readers whose companies have such plans, and from those who know of companies which have them.

Copies of PERSONNEL for May, 1940, Sought

The AMA library is in need of extra copies of the May, 1940, issue of *PERSONNEL*, and the Association will be deeply grateful to members who send in those for which they no longer have any use.

Copies should be addressed to the Research and Information Department.

Foremen's Unions

Of major concern to management in key industries are the National War Labor Board panel hearings on foremen's unions, now in progress in various cities.

AMA's research staff has been following these hearings in detail, in preparation for a report on the whole question of management's relationship to the foreman. An interim report, bearing only on the hearings, will be issued within the next two or three weeks, and will be available to all company members.

CATALOGUE UNDER WAY

A supplementary catalogue of AMA publications covering the period from May, 1943, to August, 1944, is now in preparation, and will be mailed to members in about a month.

ACTIVITIES of the AMA

Office Management Conference To Discuss Planning for Veteran

Job Evaluation, Place of Office Manager in the Organization, White Collar Unions Also Among Topics

Preparations the office manager can make for the return of the white collar veteran, and plans for meeting the concomitant personnel problems in the office, will be mapped at AMA's annual Office Management Conference, October 17-18, at the Hotel Pennsylvania, New York City.

The place of the office manager in the organization structure, office unionization, job evaluation, supervision, and training will be other topics stressed. Henry E. Niles, AMA Vice President for the Office Management Division and Vice President, The Baltimore Life Insurance Company, is in charge of the sessions.

The program will be as follows:

Tuesday Morning, Oct. 17: VETERANS—"Current Office Management Problems," Mr. Niles; "The Returning Veteran," Major Benjamin M. Golder, Executive Officer and Assistant Chief, Veterans Personnel Division, Selective Service; "Management Planning for Veterans and Present Personnel," Dr. Neal E. Drought, Head, Personnel Utilization and Research Section, RCA Victor Division, Radio Corporation of America.

Tuesday Afternoon, Oct. 17: WHITE COLLAR UNIONIZATION—"Trends in Office Unionization," Louis Stark, Washington Bureau, the *New York Times*; "Factors in Collective Bargaining Agreements for Office Workers," Claude V. McBroom, Director of Personnel and Methods, Meredith Publishing Co., and Past President, National Office Management Association; "A Practical Job Evaluation Program," John H. Eikenberg, Director of Industrial Relations, Revere Copper and Brass Incorporated.

Tuesday Evening, Oct. 17: ORGANIZATION STRUCTURE—"Raising Management's Sights on Office Organization," Lt. Col. E. W. Reiley, Chief, Organization and Planning Branch, Office of the Quartermaster General; Edward O'Toole, Organization Planning and Control Division, Office of the Quartermaster General; informal discussion led by Marvin Bower, McKinsey & Company, and Mr. Niles.

Wednesday Morning, Oct. 18: THE OFFICE AS A PRODUCTION UNIT—"Improving Written Communications," Milton Hall, Chief, Training Division, Social Security Board; "Records Retention and Destruction," V. J. Long, Assistant Treasurer, American Airlines, Inc.; "Microfilming Records," George W. Oliver, Jr., Office Manager, E. B. Badger & Sons Co.; and "Speeding Office Output," A. H. Stricker, Management Consultant, House Civil Service Investigating Committee.

Wednesday Morning, Oct. 18 (concurrent session): SUPERVISION—"The Office Supervisor's Functions and Responsibilities," panel discussion by Alfred J. Cardall, Director of Industrial Relations, John B. Stetson Company; Leonard W. Ferguson, Field Management Division, Metropolitan Life Insurance Company; Frank Hoffman, Standard Oil Com-

pany of New Jersey; J. A. Lovett, Personnel Manager, A. Schrader's Son; and Charles B. Hall, Vice President, Bank of the Manhattan Company.

Wednesday Luncheon, Oct. 18: MORALE—"Fundamentals of Employee Morale," James P. Mitchell, Director of Industrial Relations, R. H. Macy & Co., Inc.

Wednesday Afternoon, Oct. 18: TRAINING—"The General Foods Program of Office Training," by General Foods Sales Company executives: George A. Kolman, Administrative Assistant to the National Sales Manager; Jim Temple, Office Manager, Dallas District Office; and Fred R. Jones, Sales Department Office Manager.

The President's Scratch-Pad

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tition but merely because he is uninformed as to his own best interests. Among entrepreneurs, there is a great deal of blind imitation quite similar to the 'keeping up with the Joneses' of consumers."

Most marketing men have doubtless observed instances of this sort, and sometimes the fault has not lain entirely with the marketing department. Some top



Henry E. Niles

Production Meeting Will Stress Lower Costs, Reconversion

AMA's Fall Production Conference, to be held November 14-15 at the Hotel New Yorker, New York City, will be built around the two topics which an Association survey indicates are of greatest current interest to production men: reconversion, including its personnel aspects, and cost reduction.

The program will be designed to bring the production man up to date on government policies governing resumption of civilian production; indicate the type of planning companies are doing for normal operations; describe new technologies and methods which can be utilized in obtaining efficient production; suggest methods of cost reduction; and explain what can be done to realign personnel and establish new policies regarding hiring, training, and payment of employees.

managements, for instance, take a naive pride in seeing their advertisements prominently displayed where space is most expensive, regardless of whether or not the media are calculated to do the selling job needed on the product.

In former years there may have been some excuse for slipshod methods of distribution spending. Advertising and selling have only recently begun to approach the status of a science. Market research has made rapid strides, however, to the point where there is plenty of factual data available, if only more businesses can be induced to make use of it.

Marketing men, it seems to me, had better realize that the day of the crystal ball as a decision-making device is over. It is estimated that to achieve full employment in the postwar world, it will be necessary to sell \$1,000 worth of goods for every man, woman, and child in the country. It goes without saying that business can't sell that bill of goods unless the price is right, and the price won't be right if marketing costs soar out of all proportion.

Alvin E. Dodd

